

**CITY OF ARCADIA**

**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2008**



## TABLE OF CONTENTS

	<u>Page</u>
Officials	3
Independent Auditor's Report	4 - 5
Management's Discussion and Analysis	6 - 9
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statements:	
State of Activities and Net Assets - Cash Basis	A      11 - 12
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B      13 - 14
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C      15
Notes to Financial Statements	17 - 25
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	27 - 28
Notes to Required Supplementary Information - Budgetary Reporting	29
Other Supplementary Information:	<u>Schedule</u>
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Non-major Governmental Funds	1      31 - 32
Schedule of Indebtedness	2      33 - 34
Bond and Note Maturities	3      35 - 36
Schedule of Receipts by Source and Disbursements By Function - All Governmental Fund Types	4      37
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	39 - 41
Schedule of Findings and Questioned Costs	42 - 46



## CITY OF ARCADIA

### OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2008)</b>		
Oran Kohorst	Mayor	January 2008
Joel Owen	Mayor Pro-Tem	January 2010
Mary Jo Berning	Council Member	January 2008
Dwight Bluml	Council Member	January 2008
Darrell Henkenius	Council Member	January 2008
Leona Schmitz	Council Member	January 2010
Nancy Schmitz	City Clerk / Treasurer	Indefinite
Robert Peters	City Attorney	Indefinite
<b>(After January 2008)</b>		
Oran Kohorst	Mayor	January 2010
Joel Owen	Mayor Pro-Tem	January 2010
Mary Jo Berning	Council Member	January 2012
Dwight Bluml	Council Member	January 2012
Linda Julin	Council Member	January 2012
Leona Schmitz	Council Member	January 2010
Nancy Schmitz	City Clerk / Treasurer	Indefinite
Robert Peters	City Attorney	Indefinite

# MUXFELDT

## ASSOCIATES, CPA, P.C.

Certified Public Accountant

January 14, 2009

**Lonnie G. Muxfeldt**  
Certified Public  
Accountant

---

**Harlan Office:**

2309 B Chatburn Ave.  
P.O. Box 551  
Harlan, IA 51537-0551

Ph. (712) 755-3366  
Fax (712) 755-3343

---

**Avoca Office:**

305 W. High Street  
P.O. Box 609  
Avoca, IA 51521-0609

Ph. (712) 343-2379  
Fax (712) 343-5012

---

[www.muxfeldt-cpa.com](http://www.muxfeldt-cpa.com)  
[firm@muxfeldt-cpa.com](mailto:firm@muxfeldt-cpa.com)

---

**Licensed In:**

Iowa  
Missouri

### Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Arcadia, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Arcadia's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principals used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

Continued . . .

January 14, 2009

Page Two

To the Honorable Mayor and  
Members of the City Council:

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Arcadia as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 14, 2009 on my consideration of the City of Arcadia's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 9 and 27 through 29 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Arcadia's basic financial statements. Other supplementary information, included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

 Murphylet Associates, CPA, P.C.





**CITY OF ARCADIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2008**

As management of the City of Arcadia, Iowa we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended June 30, 2008.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's statements include three components: 1) a cash basis government-wide financial statement, 2) cash basis fund financial statements, and 3) notes to the financial statements.

**Government-wide financial statement:** This statement consists of a Statement of Activities and Net Assets and provides information about the activities of the City as a whole and presents an overall view of the City's finances.

**Fund financial statements:** The financial statement for governmental funds is the statement of cash receipts, disbursements and changes in cash balances. It is organized by funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Local Option Tax, and Urban Renewal Tax Increment, 3) Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.
- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, both are presented as major funds of the City.

**Notes to the financial statements:** The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

**Analysis of significant changes in financial position and fund balances:** The cash balances of the City's governmental activities increased by \$1,187 for the year ended June 30, 2008.

The following are the changes in the cash balances of the City's governmental activities:

Changes in Cash Basis Net Assets of Governmental Activities	
	Year Ended June 30, 2008
Receipts:	
Program receipts:	
Charges for services	\$ 29,102
Operating grants, contributions and restricted interest	47,759
Capital grants, contributions and restricted interest	-0-
General receipts:	
Property tax	72,130
Tax increment financing	67,961
Local option sales tax	47,517
Unrestricted investment earnings	4,884
Miscellaneous	7,993
Bond anticipation loan	78,342
Total receipts	<u>355,688</u>
Disbursements:	
Public safety	21,533
Public works	148,358
Culture and recreation	10,079
General government	36,421
Debt service	36,010
Capital projects	78,342
Total disbursements	<u>330,743</u>
Change in cash basis net assets before transfers	24,945
Transfers, net	<u>(23,758)</u>
Change in cash basis net assets	1,187
Cash basis net assets, beginning of year	<u>343,942</u>
Cash basis net assets, end of year	<u>\$ 345,129</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The cash basis of the net assets of the City's business type activities increased by \$36,479 during the year ended June 30, 2008. This 11 % increase is primarily attributable to transfers into the sewer fund.

The following are the changes in the cash basis of the net assets of the City's business type activities:

Changes in Cash Basis Net Assets of Business Type Activities	
	Year Ended June 30, 2008
Receipts:	
Program receipts:	
Charges for services and sales:	
Water	\$ 60,871
Sewer	62,917
General receipts:	
Interest	4,019
Total receipts	<u>127,807</u>
Disbursements:	
Water	61,407
Sewer	53,679
Total disbursements	<u>115,086</u>
Change in cash basis net assets before transfers	12,721
Transfers, net	<u>23,758</u>
Change in cash basis net assets	36,479
Cash basis net assets, beginning of year	<u>320,018</u>
Cash basis net assets, end of year	<u>\$ 356,497</u>

**Analysis between actual and budget amounts:** The City amended its budget on May 5, 2008. For the year ended June 30, 2008, disbursements did not exceed amounts budgeted.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

**Debt Administration:** At June 30, 2008, the City had \$518,769 in notes and other long-term debt compared to \$491,009 as of June 30, 2007, as shown below.

Outstanding Debt			
	Year Ended June 30, 2008		Year Ended June 30, 2007
General obligation notes	\$ 231,769	\$	183,009
Revenue bonds	287,000		308,000
Total	\$ 518,769	\$	491,009

The City's outstanding general obligation debt of \$231,769 is significantly below its constitutional debt limit of \$748,165.

**Future financial statement impact:** The budgeted net change to cash basis net assets is \$73,201 for the year ending June 30, 2009.

**Requests for information:** Requests for additional information can be made to the Arcadia City Clerk, Nancy Schmitz, at 205 W Front Street, Arcadia, IA 51430.



## **BASIC FINANCIAL STATEMENTS**

**CITY OF ARCADIA**

**STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS**

**AS OF AND FOR THE YEAR ENDED JUNE 30, 2008**

	Disbursements	Charges for Services	Program Receipts	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions / Programs:</b>				
Governmental activities:				
Public safety	\$ 21,533	\$ -0-	\$ 10,347	\$ -0-
Public works	148,358	25,091	37,395	0-
Cultures and recreation	10,079	2,450	-0-	-0-
General government	36,421	1,561	-0-	-0-
Debt service	36,010	-0-	-0-	-0-
Capital projects	78,342	-0-	17	-0-
Total governmental activities	330,743	29,102	47,759	-0-
Business type activities:				
Water	61,407	60,871	2,744	-0-
Sewer	53,679	62,917	1,275	-0-
Total business type activities	115,086	123,788	4,019	-0-
<b>Total</b>	<b>\$ 445,829</b>	<b>\$ 152,890</b>	<b>\$ 51,778</b>	<b>\$ -0-</b>
<b>General receipts:</b>				
Property taxes levied for:				
General purposes				
Tax increment financing				
Local option sales tax				
Unrestricted investment earnings				
Miscellaneous				
Bond anticipation loan				
Transfers				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets, beginning of year				
Cash basis net assets, end of year				
<b>Cash basis net assets</b>				
Restricted:				
Streets				
Urban renewal				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.



EXHIBIT A

<u>Net (Disbursements), Receipts and Changes in Net Assets</u>			
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<b>Functions / Programs:</b>			
Governmental activities:			
Public safety	\$ (11,186)	\$ -0-	\$ (11,186)
Public works	(85,872)	-0-	(85,872)
Cultures and recreation	(7,629)	-0-	(7,629)
General government	(34,860)	-0-	(34,860)
Debt service	(36,010)	-0-	(36,010)
Capital projects	(78,325)	-0-	(78,325)
Total governmental activities	(253,882)	-0-	(253,882)
Business type activities:			
Water	-0-	2,208	2,208
Sewer	-0-	10,513	10,513
Total business type activities	-0-	12,721	12,721
Total	(253,882)	12,721	(241,161)
	72,130	-0-	72,130
	67,961	-0-	67,961
	47,517	-0-	47,517
	4,884	-0-	4,884
	7,993	-0-	7,993
	78,342	-0-	78,342
	(23,758)	23,758	-0-
	255,069	23,758	278,827
	1,187	36,479	37,666
	343,942	320,018	663,960
	<u>\$ 345,129</u>	<u>\$ 356,497</u>	<u>\$ 701,626</u>
	\$ 53,675	\$ -0-	\$ 53,675
	123,640	-0-	123,640
	167,814	356,497	524,311
	<u>\$ 345,129</u>	<u>\$ 356,497</u>	<u>\$ 701,626</u>

**CITY OF ARCADIA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS**

**AS OF AND FOR THE YEAR ENDED JUNE 30, 2008**

	Special Revenue		
	General	Road Use Tax	Urban Renewal Tax Increment Financing
<b>Receipts:</b>			
Property tax	\$ 53,338	\$ -0-	\$ -0-
Tax increment financing	-0-	-0-	67,961
Other city tax	1,681	-0-	-0-
Licenses and permits	1,561	-0-	-0-
Use of money and property	7,334	66	-0-
Intergovernmental	10,741	36,935	-0-
Charges for services	25,091	-0-	-0-
Miscellaneous	7,993	-0-	-0-
Total receipts	107,739	37,001	67,961
<b>Disbursements:</b>			
Operating:			
Public safety	21,355	-0-	-0-
Public works	97,496	48,940	-0-
Culture and recreation	9,516	-0-	-0-
General government	23,405	-0-	-0-
Debt service	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-
Total disbursements	151,772	48,940	-0-
Excess (deficiency) of receipts over (under) disbursements	(44,033)	(11,939)	67,961
<b>Other financing sources (uses):</b>			
Bond anticipation loan	-0-	-0-	-0-
Operating transfers in	23,759	-0-	-0-
Operating transfers out	(11,580)	-0-	(21,850)
Total other financing sources (uses)	12,179	-0-	(21,850)
Net change in cash balances	(31,854)	(11,939)	46,111
Cash balances, beginning of year	209,108	65,614	77,529
Cash balances, end of eight months	\$ 177,254	\$ 53,675	\$ 123,640
<b>Cash Basis Fund Balances</b>			
Unreserved:			
General fund	\$ 177,254	\$ -0-	\$ -0-
Special revenue funds	-0-	53,675	123,640
Debt service	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-
Total cash basis fund balances	\$ 177,254	\$ 53,675	\$ 123,640

See notes to financial statements.

EXHIBIT B

	Other Non-major Governmental Funds	Total
\$	16,570	\$ 69,908
	-0-	67,961
	48,058	49,739
	-0-	1,561
	17	7,417
	-0-	47,676
	-0-	25,091
	-0-	7,993
	<u>64,645</u>	<u>277,346</u>
	178	21,533
	1,922	148,358
	563	10,079
	13,016	36,421
	36,010	36,010
	78,342	78,342
	<u>130,031</u>	<u>330,743</u>
	(65,386)	(53,397)
	78,342	78,342
	33,430	57,189
	<u>(47,517)</u>	<u>(80,947)</u>
	<u>64,255</u>	<u>54,584</u>
	(1,131)	1,187
	<u>(8,309)</u>	<u>343,942</u>
\$	<u><u>(9,440)</u></u>	\$ <u><u>345,129</u></u>
\$	-0-	\$ 177,254
	4,466	181,781
	(15,157)	(15,157)
	1,251	1,251
\$	<u><u>(9,440)</u></u>	\$ <u><u>345,129</u></u>



## CITY OF ARCADIA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	Water	Sewer	Total
Operating receipts:			
Charges for services	\$ 60,871	\$ 62,917	\$ 123,788
Operating disbursements:			
Business type activities	61,407	22,864	84,271
Operating income	(536)	40,053	39,517
Non-operating receipts (disbursements):			
Interest	2,744	1,275	4,019
Debt service	-0-	(30,815)	(30,815)
Total non-operating receipts (disbursements)	2,744	(29,540)	(26,796)
Excess (deficiency) of receipts over (under) disbursements	2,208	10,513	12,721
Other financing sources (uses):			
Operating transfer in	-0-	23,758	23,758
Net change in cash balance	2,208	34,271	36,479
Cash balances, beginning of year	168,063	151,955	320,018
Cash balances, end of year	\$ 170,271	\$ 186,226	\$ 356,497
<b>Cash Basis Fund Balances</b>			
Reserved:			
Debt service	\$ -0-	\$ -0-	\$ -0-
Unreserved	170,271	186,226	356,497
Total cash basis fund balances	\$ 170,271	\$ 186,226	\$ 356,497

See notes to financial statements.



## **NOTES TO FINANCIAL STATEMENTS**

**CITY OF ARCADIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Arcadia is a political subdivision of the State of Iowa and located in Carroll County. It was first incorporated in 1881 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, and general administrative services. The City also provides water and sewer utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Arcadia has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial burdens on the City. The City of Arcadia has no component units.

**Jointly Governed Organizations**

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Carroll County Assessor's Conference Board, Carroll County Emergency Management Commission, Carroll County Landfill Commission and Carroll County Joint E911 Service Board.



**CITY OF ARCADIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)**

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges from services.

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include: 1) charges to customers or applicants whose purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

**CITY OF ARCADIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

**B. Basis of Presentation (Cont'd)**

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

**C. Measurement Focus and Basis of Accounting**

The City of Arcadia maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**D. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements did not exceed amounts budgeted.

**CITY OF ARCADIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 2 CASH AND POOLED INVESTMENTS**

The City's deposits in bank at June 30, 2008, were covered entirely by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash, consisting of demand and certificates of deposit, is held at a local bank in the City's name and totals \$701,626 as of June 30, 2008.

**CITY OF ARCADIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 3 NOTES PAYABLE**

Annual debt service requirements to maturity for the City's general obligation and sewer revenue notes are as follows:

Year Ending June 30,	General Obligation Notes	
	Principal	Interest
2009	\$ 50,560	\$ 5,452
2010	24,445	4,464
2011	22,997	3,545
2012	23,947	2,595
2013	9,975	1,605
2014	10,484	1,097
2015	11,019	562
Total	\$ 153,427	\$ 19,320

Year Ending June 30,	Sewer Revenue Notes		Total	
	Principal	Interest	Principal	Interest
2009	\$ 21,000	\$ 9,120	\$ 71,560	\$ 14,572
2010	21,000	8,425	45,445	12,889
2011	22,000	7,730	44,997	11,275
2012	24,000	7,000	47,947	9,595
2013	24,000	6,205	33,975	7,810
2014	25,000	5,410	35,484	6,507
2015	25,000	5,140	36,019	5,702
2016	10,000	3,750	10,000	3,750
2017	10,000	3,450	10,000	3,450
2018	10,000	3,150	10,000	3,150
2019	11,000	2,850	11,000	2,850
2020	11,000	2,520	11,000	2,520
2021	11,000	2,190	11,000	2,190
2022	12,000	1,860	12,000	1,860
2023	12,000	1,500	12,000	1,500
2024	12,000	1,140	12,000	1,140
2025	13,000	780	13,000	780
2026	13,000	390	13,000	390
Total	\$ 287,000	\$ 72,610	\$ 440,427	\$ 91,930

**CITY OF ARCADIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 3 NOTES PAYABLE (Continued)**

General Obligation Replacement Note

On October 5, 2001, the City issued general obligation notes in the amount of \$124,427. The notes bear interest at 3.5%, require annual installments of \$14,962 and mature June 1, 2012.

Lot Development Note

On July 16, 1999, the City and the Arcadia Betterment & Development Corporation executed a promissory note with Region XII Council of Governments. The \$71,250 note financed infrastructure development in the Redig Housing Subdivision under the Local Housing Assistance Program Fund. The note bears interest at 1.5%, requires quarterly installments of \$2,367 and matures July 15, 2009. The City pays the interest and principal on the note.

Promissory Note

On October 8, 2001, the City signed a promissory note with the Arcadia Betterment & Development Corporation. The \$20,000 note bears interest at 0% and matures October 8, 2016. The City reserves the right to repay this note at any time.

Pumper Truck Note

On April 1, 2005, the City financed the purchase of a pumper truck with an out of state bank. The \$88,988 note bears interest at 5.1%, requires annual installments of \$11,580 and matures April 1, 2015.

Revenue Debt Resolutions

The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the sewer fund.

Bond Anticipation Loan

On June 2, 2008, the City issued authorization for a bond anticipation loan with a local bank. The \$78,342 loan bears interest at 0% and was repaid with the issuance on October 15, 2008 of urban renewal tax increment revenue bonds in the amount of \$285,000.

**CITY OF ARCADIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 4 PENSION AND RETIREMENT BENEFITS**

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute a 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2008 was \$3,111 equal to the required contributions for the year.

**NOTE 5 COMPENSATED ABSENCES**

One City employee accumulates a limited amount of earned but unused vacation for subsequent use or for payment upon termination or retirement. This accumulation is not recognized as a disbursement by the City until used or paid. The employee accumulates two weeks of vacation every calendar year. The City's approximate liability for earned vacation payable to the employee at June 30, 2008 is as follows:

<u>Type of Benefit</u>	<u>Amount June 30, 2008</u>
Vacation	\$ <u>636</u>

This liability has been computed based on rates of pay in effect at June 30, 2008.

**NOTE 6 PROPERTY TAXES**

Property taxes become an enforceable lien on property when they are certified to the County Board of Supervisors on or before March 15. Taxes are payable on September 30 and March 31, payment later than this results in a penalty. The County bills and collects property taxes and remits them to the City monthly.

**CITY OF ARCADIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 7 RELATED PARTY TRANSACTIONS**

The City had business transactions that totaled \$11,174 between the City and City officials during the year ended June 30, 2008.

**NOTE 8 INTERFUND TRANSFERS**

The detail of interfund transfers for the year ended June 30, 2008, is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue - Local Option Tax	\$ 23,759
Proprietary- Sewer	Special Revenue - Local Option Tax	23,758
Debt Service	Special Revenue - Urban Renewal TIF	21,850
Debt Service	General	11,580
Total		<u>\$ 80,947</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**NOTE 9 RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the past fiscal year.





**CITY OF ARCADIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 10 URBAN RENEWAL**

In February 1999, the City adopted an Urban Renewal Plan for the Urban Renewal Area of the City, pursuant to Chapters 15A, 403 and 403A of the Iowa Code. The objectives of the plan include: authorizing the provision of financial incentives necessary to attract new people, industries and businesses to the community and encouraging the expansion of existing residential housing, industries and businesses; expanding the existing residential and commercial property tax base of the community; and the creation and retention of permanent employment opportunities for local residents through economic development. The project area includes the downtown area and the Redig Subdivision. The urban renewal plan is effective for twenty-five years till February 2024 or till such time that the City has received full reimbursement from incremental taxes of its advances and principal and interest payable on all tax increment revenue bonds or general obligation bonds or notes issued to carry out the objectives of the project area.

**NOTE 10 DEFICIT BALANCE**

The Debt Service Fund had a deficit balance of \$15,157 at June 30, 2008. The deficit balance will be eliminated upon a transfer of funds.

**NOTE 11 SUBSEQUENT EVENTS**

On April 7, 2008, the City awarded a construction contract in the amount of \$249,942 to Leroy & Sons, Inc. The contract provides for grading, paving, sanitary sewer, water main and storm sewer infrastructure development of Redig Subdivision. The project was completed in October 2008 at a total cost of \$244,482.

On October 15, 2008, the City issued Urban Renewal Tax Increment Revenue Bonds in the amount of \$285,000. The bonds bear interest at 4.75%, require annual installments of principal and interest, and mature on June 1, 2018.



**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF ARCADIA**

**BUDGETARY COMPARISON SCHEDULE  
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS**

**REQUIRED SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2008**

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 69,908	\$ -0-
Tax increment financing	67,961	-0-
Other city tax	49,739	-0-
Licenses and permits	1,561	-0-
Use of money and permits	7,417	4,019
Intergovernmental	47,676	-0-
Charges for services	25,091	123,788
Miscellaneous	7,993	-0-
Total receipts	<u>277,346</u>	<u>127,807</u>
Disbursements:		
Public safety	21,533	-0-
Public works	148,358	-0-
Culture and recreation	10,079	-0-
General government	36,421	-0-
Debt service	36,010	-0-
Capital projects	78,342	-0-
Business type	-0-	115,086
Total disbursements	<u>330,743</u>	<u>115,086</u>
Excess (deficiency) of receipts over (under) disbursements	(53,397)	12,721
Other financing sources, net	<u>54,584</u>	<u>23,758</u>
Excess (deficiency) of receipts and other financing sources	1,187	36,479
Balance beginning of year	<u>343,942</u>	<u>320,018</u>
Balance end of year	\$ <u>345,129</u>	\$ <u>356,497</u>

See Accompanying Independent Auditor's Report

Total		Budgeted Amounts		Final to Total Variance
		Original	Final	
\$	69,908	\$ 69,250	\$ 69,250	\$ 658
	67,961	65,990	65,990	1,971
	49,739	58,274	58,274	(8,535)
	1,561	475	475	1,086
	11,436	7,505	9,155	2,281
	47,676	46,280	46,600	1,076
	148,879	146,600	146,600	2,279
	7,993	500	8,330	(337)
	<u>405,153</u>	<u>394,874</u>	<u>404,674</u>	<u>479</u>
	21,533	28,140	28,140	6,607
	148,358	115,004	191,854	43,496
	10,079	9,500	10,450	371
	36,421	36,725	36,725	304
	36,010	36,200	36,200	190
	78,342	-0-	179,000	100,658
	<u>115,086</u>	<u>115,500</u>	<u>115,500</u>	<u>414</u>
	<u>445,829</u>	<u>341,069</u>	<u>597,869</u>	<u>152,040</u>
	(40,676)	53,805	(193,195)	152,519
	<u>78,342</u>	<u>2,500</u>	<u>249,500</u>	<u>(171,158)</u>
	37,666	56,305	56,305	(18,639)
	<u>663,960</u>	<u>663,960</u>	<u>663,960</u>	<u>-0-</u>
\$	<u>701,626</u>	\$ <u>720,265</u>	\$ <u>720,265</u>	\$ <u>(18,639)</u>



## **CITY OF ARCADIA**

### **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING**

**JUNE 30, 2008**

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$148,469. The budget amendments are reflected in the final budgeted amounts. During the year ended June 30, 2008, disbursements did not exceed the amounts budgeted.





## **OTHER SUPPLEMENTARY INFORMATION**

**CITY OF ARCADIA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES -  
NON-MAJOR GOVERNMENTAL FUNDS**

**AS OF AND FOR THE YEAR ENDED JUNE 30, 2008**

	Special Revenue		
	Local Option	Employee	
	Tax	Benefits	Tort
Receipts:			
Property tax	\$ -0-	\$ 8,883	\$ 7,687
Other city taxes	47,517	290	251
Use of money and property	-0-	-0-	-0-
Total receipts	<u>47,517</u>	<u>9,173</u>	<u>7,938</u>
Disbursements:			
Operations:			
Public safety	-0-	178	-0-
Public works	-0-	1,922	-0-
Culture and recreation	-0-	563	-0-
General government	-0-	4,885	8,131
Debt service	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-
Total disbursements	<u>-0-</u>	<u>7,548</u>	<u>8,131</u>
Excess (deficiency) of receipts over (under) disbursements	47,517	1,625	(193)
Other financing sources (uses):			
Bond anticipation loan	-0-	-0-	-0-
Operating transfers in	-0-	-0-	-0-
Operating transfers out	(47,517)	-0-	-0-
Net financing sources (uses)	<u>(47,517)</u>	<u>-0-</u>	<u>-0-</u>
Net change in cash balances	-0-	1,625	(193)
Cash balances beginning of year	<u>-0-</u>	<u>714</u>	<u>2,320</u>
Cash balances end year	<u>\$ -0-</u>	<u>\$ 2,339</u>	<u>\$ 2,127</u>
<b>Cash Basis Fund Balances</b>			
Reserved for debt service	\$ -0-	\$ -0-	\$ -0-
Unreserved:			
Special revenue	-0-	2,339	2,127
Capital projects	-0-	-0-	-0-
Total cash basis fund balances	<u>\$ -0-</u>	<u>\$ 2,339</u>	<u>\$ 2,127</u>

See Accompanying Independent Auditor's Report.

SCHEDULE 1

Debt Service	Capital Projects	Total
\$ -0-	\$ -0-	\$ 16,570
-0-	-0-	48,058
-0-	17	17
-0-	17	64,645
-0-	-0-	178
-0-	-0-	1,922
-0-	-0-	563
-0-	-0-	13,016
36,010	-0-	36,010
-0-	78,342	78,342
36,010	78,342	130,031
(36,010)	(78,325)	(65,386)
-0-	78,342	78,342
33,430	-0-	33,430
-0-	-0-	(47,517)
33,430	78,342	64,255
(2,580)	17	(1,131)
(12,577)	1,234	(8,309)
\$ (15,157)	\$ 1,251	\$ (9,440)
\$ (15,157)	\$ -0-	\$ (15,157)
0-	-0-	4,466
-0-	1,251	1,251
\$ (15,157)	\$ 1,251	\$ (9,440)

**CITY OF ARCADIA**  
**SCHEDULE OF INDEBTEDNESS**

**JUNE 30, 2008**

	<u>Date of Issue</u>	<u>Interest Rates</u>		<u>Amount Originally Issued</u>
<u>General Obligation</u>				
Lot Development Note	July 15, 1999	1.50%	\$	71,250
GO Replacement Note	October 5, 2001	3.50%	\$	124,427
Promissory Note	October 8, 2001	0.00%	\$	20,000
Pumper Note	April 1, 2005	5.10%	\$	88,988
<u>Revenue Notes</u>				
Sewer Revenue Note	July 1, 2003	3.50%	\$	155,000
Sewer Revenue Note	June 1, 2006	3.00%	\$	243,000
<u>Urban Renewal</u>				
<u>Tax increment financing</u>				
Bond Anticipation Loan	June 2, 2008	0.00%	\$	78,342

See accompanying independent auditor's report.

SCHEDULE 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 20,910	\$ -0-	\$ 9,206	\$ 11,704	\$ 263	\$ 37
67,554	-0-	12,597	54,957	2,364	160
20,000	-0-	-0-	20,000	-0-	-0-
<u>74,545</u>	<u>-0-</u>	<u>7,779</u>	<u>66,766</u>	<u>3,802</u>	<u>851</u>
\$ <u>183,009</u>	\$ <u>-0-</u>	\$ <u>29,582</u>	\$ <u>153,427</u>	\$ <u>6,429</u>	\$ <u>1,048</u>
115,000	-0-	13,000	102,000	4,025	-0-
<u>193,000</u>	<u>-0-</u>	<u>8,000</u>	<u>185,000</u>	<u>5,790</u>	<u>463</u>
\$ <u>308,000</u>	\$ <u>-0-</u>	\$ <u>21,000</u>	\$ <u>287,000</u>	\$ <u>9,815</u>	\$ <u>463</u>
\$ <u>-0-</u>	\$ <u>78,342</u>	\$ <u>-0-</u>	\$ <u>78,342</u>	\$ <u>-0-</u>	\$ <u>-0-</u>

## CITY OF ARCADIA

## DEBT MATURITIES

JUNE 30, 2008

## General Obligation Notes

Year Ended June 30,	<u>Pumper Note</u> <u>Issued April 1, 2005</u>		<u>Promissory Note</u> <u>Issued October 8, 2001</u>	
	Interest Rates	Amount	Interest Rates	Amount
2009	5.10%	\$ 8,175	0.00%	\$ 20,000
2010	5.10%	8,592	--	-0-
2011	5.10%	9,030	--	-0-
2012	5.10%	9,491	--	-0-
2013	5.10%	9,975	--	-0-
2014	5.10%	10,484	--	-0-
2015	5.10%	11,019	--	-0-
Total		\$ <u>66,766</u>		\$ <u>20,000</u>

Year Ended June 30,	<u>GO Replacement Note</u> <u>Issued October 5, 2001</u>		<u>Lot Development Note</u> <u>Issued July 15, 1999</u>		Total
	Interest Rates	Amount	Interest Rates	Amount	
2009	3.50%	\$ 13,039	1.50%	\$ 9,346	\$ 50,560
2010	3.50%	13,495	1.50%	2,358	24,445
2011	3.50%	13,967	--	-0-	22,997
2012	3.50%	14,456	--	-0-	23,947
2013	--	-0-	--	-0-	9,975
2014	--	-0-	--	-0-	10,484
2015	--	-0-	--	-0-	11,019
Total		\$ <u>54,957</u>		\$ <u>11,704</u>	\$ <u>153,427</u>

See Accompanying Independent Auditor's Report

**Revenue Notes**

Sewer Revenue Note  
Issued July 1, 2003

Year Ended June 30,	Interest Rates	Amount
2009	3.50%	\$ 13,000
2010	3.50%	13,000
2011	3.50%	14,000
2012	3.50%	15,000
2013	3.50%	15,000
2014	3.50%	16,000
2015	3.50%	16,000
Total		\$ <u>102,000</u>

Sewer Revenue Note  
Issued June 1, 2006

Year Ended June 30,	Interest Rates	Amount	Total
2009	3.00%	\$ 8,000	\$ 21,000
2010	3.00%	8,000	21,000
2011	3.00%	8,000	22,000
2012	3.00%	9,000	24,000
2013	3.00%	9,000	24,000
2014	3.00%	9,000	25,000
2015	3.00%	9,000	25,000
2016	3.00%	10,000	10,000
2017	3.00%	10,000	10,000
2018	3.00%	10,000	10,000
2019	3.00%	11,000	11,000
2020	3.00%	11,000	11,000
2021	3.00%	11,000	11,000
2022	3.00%	12,000	12,000
2023	3.00%	12,000	12,000
2024	3.00%	12,000	12,000
2025	3.00%	13,000	13,000
2026	3.00%	13,000	13,000
		\$ <u>185,000</u>	\$ <u>287,000</u>





**CITY OF ARCADIA**

**SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -  
ALL GOVERNMENTAL FUNDS**

**FOR THE LAST FOUR YEARS**

	<u>2008</u>	<u>2007 *</u>	<u>2006 *</u>	<u>2005 *</u>
Receipts:				
Property taxes	\$ 69,908	\$ 70,493	\$ 67,525	\$ 68,232
Tax increment financing	67,961	65,497	22,303	21,795
Other city taxes	49,739	48,679	48,224	46,579
License and permits	1,561	1,992	2,018	1,442
Use of money and property	7,417	6,124	6,223	6,144
Intergovernmental	47,676	45,463	81,578	43,922
Charges for service	25,091	1,453	23,734	25,663
Miscellaneous	<u>7,993</u>	<u>19,359</u>	<u>21,770</u>	<u>12,269</u>
Total	\$ <u>277,346</u>	\$ <u>259,060</u>	\$ <u>273,375</u>	\$ <u>226,046</u>
Disbursements:				
Operating:				
Public safety	\$ 21,533	\$ 22,245	\$ 17,754	\$ 15,150
Public works	148,358	79,706	109,248	124,091
Culture and recreation	10,079	9,307	13,535	14,201
General government	36,421	32,897	33,371	35,894
Debt service	36,010	36,011	111,535	24,430
Capital projects	<u>78,342</u>	<u>-0-</u>	<u>172,237</u>	<u>-0-</u>
Total	\$ <u>330,743</u>	\$ <u>180,166</u>	\$ <u>457,680</u>	\$ <u>213,766</u>

\* Unaudited

See accompanying independent auditor's report.



**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

# MUXFELDT

## ASSOCIATES, CPA, P.C.

Certified Public Accountant

January 14, 2009

**Lonnie G. Muxfeldt**  
Certified Public  
Accountant

---

**Harlan Office:**

2309 B Chatburn Ave.  
P.O. Box 551  
Harlan, IA 51537-0551

Ph. (712) 755-3366  
Fax (712) 755-3343

---

**Avoca Office:**

305 W. High Street  
P.O. Box 609  
Avoca, IA 51521-0609

Ph. (712) 343-2379  
Fax (712) 343-5012

---

[www.muxfeldt-cpa.com](http://www.muxfeldt-cpa.com)  
[firm@muxfeldt-cpa.com](mailto:firm@muxfeldt-cpa.com)

---

**Licensed In:**

Iowa  
Missouri

INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and  
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Arcadia, Iowa as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated January 14, 2009. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Arcadia's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City of Arcadia's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies and other deficiencies I consider to be material weaknesses.

Continued . . .

January 14, 2009  
To the Honorable Mayor and  
Members of the City Council:  
Page Two

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood that a misstatement of the City's financial statement that is more than inconsequential will not be prevented or detected by the City's internal control. I consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I believe items II-A-08 and II-B-08 are material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Arcadia's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Continued . . .



January 14, 2009  
To the Honorable Mayor and  
Members of the City Council:  
Page Three

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Arcadia's responses to the findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. While I have expressed my conclusions on the City of Arcadia's responses, I did not audit the City of Arcadia's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Arcadia and other parties to whom the City of Arcadia may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Arcadia during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

M. J. M. Associates, CPA, P.C.





**CITY OF ARCADIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2008**

**PART I: SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS**

- a. Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b. Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- c. The audit did not disclose any non-compliance which is material to the financial statements.

**PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS**

**SIGNIFICANT DEFICIENCIES:**

**II-A-08 Lack of Council Oversight**

Comment - In a small city hall where a part time clerk/treasurer performs all financial functions such as check signing, bookkeeping, handling cash, making deposits and initiating telephone transfer between City accounts, it falls upon the City Council to provide oversight and monitor the transactions that make up the financial reporting process.

Recommendation - City Council should consider appointing an independent City Treasurer to prepare the Treasurer's Reports. City Council should also consider requiring two signatures on all City checks. Finally, City Council should consider having the mayor or some other councilor date and initial invoices prior to payment. These procedures provide considerable oversight in other towns of similar size.

Response - We will consider appointing an independent City Treasurer to prepare the Treasurer's Reports. We will consider requiring two signatures on all City checks. And we will consider having the mayor or some other councilor date and initial invoices prior to payment.

Conclusion - Response acknowledged.

**CITY OF ARCADIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2008**

**PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued):**

**SIGNIFICANT DEFICIENCIES (Continued):**

**II-B-08 Financial Reporting - Annual Financial Report**

Comment - During the audit I noted that the annual financial report filed with the State Auditor's Office materially misstated beginning and ending fund balances of the proprietary and governmental funds at June 30, 2008. The misstatement was corrected and a revised annual financial report was prepared.

Recommendation - When preparing the annual financial report, I recommend that beginning and ending fund balances be reported according to the Treasurer's Reports.

Response - This procedure will be followed in the future.

Conclusion - Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2008

### PART III: OTHER FINDINGS RELATED TO STATUTORY REPORTING:

- III-A-08 Certified Budget - Disbursements during the year ended June 30, 2008, did not exceed the amounts budgeted.
- III-B-08 Questionable Disbursements - I noted no disbursements for parties, banquets or other entertainment for employees that I believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.
- III-C-08 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-D-08 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name</u>	<u>Description</u>	<u>Amount</u>
Joel Owen	21.5% owner, Cornerstone Insurance, LLC	\$11,174

The transaction with the Councilor does not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(4) of the Code of Iowa.

- III-E-08 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

**CITY OF ARCADIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2008**

**PART III: OTHER FINDINGS RELATED TO STATUTORY REPORTING (Continued):**

- III-F-08 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. It was also noted that three meetings were missing from the minute book.

Recommendation - The City should comply with Chapter 21 of the Code of Iowa and should publish minutes on time. Also, minutes should be filed and signed in the minute book.

Response - We will publish minutes timely as required. Minutes will be filed and signed in the minute book as recommended.

Conclusion - Response accepted.

- III-G-08 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa were noted. It was noted, however, that the City does not have a written deposit and investment policy.

Recommendation - The City should implement and adopt a written deposit and investment policy. Current deposit and investment practices are adequate; however, practices should be documented as policy and formally adopted by Council.

Response - A deposit and investment policy will be written and adopted as recommended.

Conclusion - Response accepted.

- III-H-08 Financial Condition - The Debt Service Fund had a deficit balance at June 30, 2008 of \$15,157.

Recommendation - The City should eliminate this deficit and return this fund to a sound financial position.

Response - We will transfer the required amount to return the Debt Service Fund to a sound financial position as recommended.

Conclusion - Response accepted.

**CITY OF ARCADIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2008**

III-I-08 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa permits the City to retain cancelled checks in an electronic format but requires an image of both front and back of the cancelled checks. The City retains only the front image of the cancelled checks and not both front and back images as required.

Recommendation - The City should request that the bank provide front and back images of cancelled checks as required.

Response - We have requested from our bank an image of both the front and back of each cancelled check. Our bank will provide these services as required.

Conclusion - Response accepted.



CITY OF ARCADIA  
ARCADIA, IOWA 51430

**NEWS RELEASE**

Muxfeldt Associates, CPA, P.C., 2309 B Chatburn Avenue, Harlan, Iowa today released an audit report on the City of Arcadia, Iowa.

The City's receipts totaled \$483,495 for the year ended June 30, 2008, The receipts included \$72,130 from property tax, \$67,961 from tax incremental financing, \$152,890 from charges for services, \$51,778 from operating grants, contributions and restricted interest, \$47,517 from local option sales tax, \$4,884 from unrestricted investment earnings, \$7,993 in other general receipts, and \$78,342 from a bond anticipation loan.

Disbursements for the year totaled \$445,829 and included \$148,358 for public works, \$78,342 for capital projects, and \$61,407 for water.

A copy of the audit report is available for review in the City Clerk's office, in the office of the Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

